

Attachment 1-1-(a)-1

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December 14, 2004

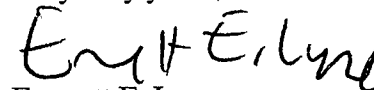
Steven Venezia, Esq.
Massachusetts Division of Energy Resources
100 Cambridge Street, Suite 1020
Boston, MA 02114

Re: Benefit Cost Ratio/RCS Program

Dear Steve:

Following up on their applicable CY 2004 Residential Conservation Service ("RCS") settlements and related discussions with the Division of Energy Resources ("DOER") and the Department of Telecommunications and Energy ("DTE"), the following companies have prepared the attached benefit cost ratio analysis with respect to the RCS program: Bay State Gas Company, The Berkshire Gas Company, Fitchburg Gas and Electric Light Company, New England Gas Company - Fall River Service Area, New England Gas Company - North Attleboro Service Area, and NSTAR Gas Company (together, the "LDC Group"). The LDC Group would be pleased to discuss the attached analysis, which indicates program cost-effectiveness for each member of the LDC Group, with the DOER and looks forward to continuing to work with the DOER and the DTE in the implementation of the RCS program.

Very truly yours,


Emmett E. Lyne

cc: Mr. Derek Buchler, Bay State Gas
Mr. James Carey, N.E. Gas
Ms. Suzanne Farrington, NSTAR
Erika Hafner, Esq., Keegan, Werlin and Pabian
Ms. Marjorie Izzo, Bay State Gas
Ms. Deborah Jarvis, Fitchburg Gas and Electric
Andrew Kaplan, Esq., DTE
Mr. Charles Olsson, NSTAR
Ms. Deborah Pirrota, NSTAR
David Rosenzweig, Esq., Keegan, Werlin and Pabian
Ms. Lisa Shea, NSTAR
Mr. Michael Sommer, Berkshire

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2004 RCS PROGRAM COST-EFFECTIVENESS ANALYSIS

Following up on their applicable CY 2004 Residential Conservation Service ("RCS") settlements and related discussions with the Division of Energy Resources ("DOER") and the Department of Telecommunications and Energy ("DTE"), the following companies have prepared this benefit cost ratio analysis with respect to the RCS program: Bay State Gas Company, The Berkshire Gas Company, Fitchburg Gas and Electric Light Company, New England Gas Company - Fall River Service Area, New England Gas Company - North Attleboro Service Area, and NSTAR Gas Company (together, the "LDC Group"). The LDC Group would be pleased to discuss this analysis, which indicates program cost-effectiveness for each member of the LDC Group, with the DOER and looks forward to continuing to work with the DOER and the DTE in the implementation of the RCS program.

The LDC Group utilized the following conservative methodology in determining program cost-effectiveness. In order to avoid any possible double counting of savings (and given constraints on the data collection abilities of each company), no incremental new savings were claimed as a result of the RCS program, which is used, inter alia, as a component of delivering the pre-approved energy efficiency programs of each member of the LDC Group. (These pre-approved energy efficiency programs were developed in collaborative settlements with the DOER and the DTE and savings estimates for all such programs are reflected in the applicable settlements for each Company.) All RCS-related costs, however, are reflected in the analysis, thereby ensuring a very conservative approach to reviewing cost effectiveness. Even using this approach, for each member of the LDC Group, its overall energy efficiency efforts, inclusive of the RCS program, remains cost effective. This conservative approach further reflects the fact that the statutorily mandated RCS program is an integrated part of the Company's complete package of energy efficiency offerings.

More specifically, the LDC Group conducted the following steps in the analysis:

- Each Company referred to Exhibit C, Table 1 of its recently approved 5-year energy efficiency program ("EEP"). For Fitchburg, which is on a different pre-approval cycle, the Company referred to its most recent budget attached as Exhibit A for convenience of reference.
- Each Company calculated/determined the total Net Present Value ("NPV") Benefits and NPV Costs for all residential (including Low-Income and GasNetworks[®]) programs. Even though the RCS program produces, at least indirectly, benefits for the commercial/industrial sector, for conservatism, RCS costs were spread over only residential customers in this analysis.
- Each Company then calculated the NPV Costs of five years of RCS programs using the following assumptions:
 - Initial Budget is the proposed budget found in each Company's November 1, 2004 RCS Budget Filing to take effect in CY 2005. This budget reflects and incorporates anticipated impacts from the recently approved 5-year EEP plan referenced above
 - Inflation rate = 2.5% (as used for screening EEP)

- Discount rate = 4.41%
- The calculated RCS NPV Cost was added to the NPV Costs for all residential programs that results in a “modified” NPV Cost figure.
- The Residential Programs (as described above) NPV Benefits figure was divided by the modified Residential NPV Costs figure resulting in a new Residential Program BCR figure, factoring in the RCS program.
- The new BCR demonstrated each Company’s residential efforts, including all RCS program costs, to be robustly cost-effective.
- The Company specific BCRs are as follows:
 - Bay State - 2.13
 - Berkshire - 1.51
 - Fall River - 1.64
 - Fitchburg - 1.67
 - North Attleboro - 1.77
 - NSTAR - 2.01

Exhibit A

Fitchburg Gas and Electric Light Company Information

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FG&E's Gas Program Screening Results - 5 Yr Period
PRELIMINARY FOR RCS SETTLEMENT

FG&E Programs	Note	Program Costs PV	Program Benefits PV	B/C Ratio
GasNetworks				
Res. HE Heating Equipment	(1)	\$ 170,556	\$ 349,293	2.05
Res. HE Water Heating	(1)	\$ 21,997	\$ 74,489	3.39
ENERGY STAR Windows	(1)	\$ 26,604	\$ 74,962	2.82
		<u>\$ 219,156</u>	<u>\$ 498,744</u>	<u>2.28</u>
Co-Specific Residential				
Res. Weatherization	(2)	\$ 187,551	\$ 225,927	1.20
Low Income Retrofit	(2)	\$ 362,913	\$ 610,251	1.68
		<u>\$ 550,464</u>	<u>\$ 836,177</u>	<u>1.52</u>
All Residential		<u>\$ 769,620</u>	<u>\$ 1,334,921</u>	<u>1.73</u>
Gas RCS				
	(3)	\$ 15,013	\$ -	-
		<u>\$ 2,104,717</u>	<u>\$ 3,506,020</u>	<u>1.67</u>

- (1) From statewide GasNetworks screening analysis provided by GDS Associates, 2004.
(2) Preliminary program screening results for 2004/05 Pre-Approval Filing (12/04) extended for 5 years.
(3) FG&E's proposed 2005 gas RCS budget extended for 5 years.

Emmett E. Lyne

From: Emmett E. Lyne
Sent: Tuesday, December 21, 2004 8:54 AM
To: Steven I. Venezia (steven.venezia@state.ma.us); O'Keefe, Matthew (ENE)
Cc: Derek Buchler (dbuchler@nisource.com); Marjorie Izzo (Mizzo@NiSource.com); Patricia French (pfrench@nisource.com)
Subject: Bay State Gas Company BCR Analysis
Attachments: BSG RCS BCR 2005.pdf

Steve/ Matt—pursuant to your request during our call yesterday, attached is the RCS BCR analysis of Bay State Gas Company. Please do not hesitate to call with any questions.
Best, Emmett

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Bay State Gas Program Screening Results - 5 Yr Period

Program/Initiative	Note	NPV Total Benefits(2004\$)	NPV Total Costs(2004\$)	BCR
Statewide Programs				
Residential High Efficiency Heating Rebate	(1)	\$16,919,599	\$4,725,341	3.58
Residential High Efficiency Water Heating Rebate	(1)	\$463,319	\$256,046	1.81
Residential ENERGY STAR Thermostat Rebate	(1)	\$1,582,054	\$446,005	3.55
Residential ENERGY STAR Homes	(1)	\$5,237,131	\$3,658,794	1.43
Residential ENERGY STAR Windows	(1)	\$6,839,217	\$1,956,582	3.5
		<u>\$31,041,320</u>	<u>\$11,042,768</u>	<u>2.81</u>
Company Specific Programs				
Residential Weatherization	(2)	\$8,458,629	\$4,690,602	1.80
Residential Low-Income	(2)	\$7,658,258	\$4,339,965	1.76
		<u>\$16,116,887</u>	<u>\$9,030,567</u>	<u>1.78</u>
Residential Total	(2)	\$47,158,207	\$20,073,335	2.35
RCS	(3)	-	\$2,059,762	
		<u>\$47,158,207.00</u>	<u>\$22,133,097</u>	<u>2.13</u>

(1) From statewide GasNetworks screening analysis provided by GDS Associates, 2004.

(2) From Company-specific screening analysis provided by GDS Associates, 2004.

(3) Bay State Gas proposed 2005 gas RCS budget extended for 5 years.